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UNCLAS SECTION 01 OF 02 LAGOS 000570

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TAGS: ECON PGOV SOCI NI
SUBJECT: NIGERIA: Exxon Official Highlights Threats and Opportunities

¶1. (U) Summary: An Exxon Mobil Official confirmed that 500,000 - 600,000 barrels per day (bpd) of oil is currently shut-in in the Niger Delta. The cost of rig renting has risen from USD 40,000 - 50,000 to approximately USD 200,000 per day, while a Niger Delta security premium of 10 - 40 percent has increased exploration costs in the region. GON investment in the industry, USD 4 billion per year, is low and stifling output growth. The Exxon Mobil official recommended the Nigerian National Petroleum Corporation (NNPC) raise bonds to finance its portion of the joint venture agreements with oil majors. End summary.

¶2. (U) On August 7, 2007, the Lagos Business School held its monthly breakfast meeting for business executives. This month's meeting focused on the Niger Delta. Cyril Ordu, Director, Upstream Business Services, Exxon Mobil Nigeria, spoke on challenges and opportunities in the oil and gas industry.

500,000 bpd Shut-in in the Delta

¶3. (U) On August 7, Ordu speculated that Nigeria's hope of producing 4 million barrels per day (bpd) of oil by 2010 was fading. Approximately 500,000 to 600,000 bpd of crude oil are shut-in due to unrest in the Niger Delta.

¶4. (U) Unrest in the region has created a vicious cycle in the industry, he said, which has contributed to high production costs as well as high world oil prices. For example, while rig rentals used to average between USD 40,000 - 50,000 per day, they are now as high as USD 200,000 per day. Additionally, companies now pay a Niger Delta "security premium," which costs between 10 - 40 percent of their exploration costs. Ordu said these cost increases have stalled two liquefied natural gas (LNG) projects.

¶5. (U) He said the industry, without success, had implored the Niger Delta Development Commission (NDDC) to spend at least 60 percent of international oil company contributions in oil-producing communities. Currently, Exxon spends an average of USD 10 million (naira 1.3 billion) on its host communities and contributes USD 38 million (naira 5 billion) annually to the NDDC.

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GON Must Invest USD 7 billion Annually for Growth
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¶6. (U) Ordu berated the Government of Nigeria (GON) for not investing in the industry, even though it sets targets to increase overall output. In 2006, the GON received USD 60 billion from the industry, only USD 4 billion of which was re-invested. (Note: This is the same amount the GON has been investing over the last few years. End Note.) If the GON does not increase its investments in

this industry, growth would not be achieved, Ordu warned. He speculated that the GON would need to invest USD 7 billion annually in order to increase output.

¶7. (U) Ordu suggested the Nigerian National Petroleum Corporation (NNPC) could raise bonds to finance its portion of the joint venture agreements with oil majors.

2008 Flare-out Deadline Unlikely

¶8. (U) While the industry may not be able to meet the 2008 flare-out deadline, Ordu speculated a lot has been achieved in gas utilization. However, these efforts are undermined by the lack of a national gas grid. Most gas plants and recently commissioned power plants are not connected to gas supply sources, rendering them useless.

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Downstream: NNPC Should Partner Foreign Refineries
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¶9. (U) On the downstream sub-sector, privatizing refineries would not solve the energy shortage in the short term, he said. Importing petroleum products is the only solution, for now, as repairing old refineries and building new ones would take two to three years. However, concessioning and revamping infrastructure at Atlas Cove, where imported products are received, would make product distribution more efficient. He further commented that products should be imported through Port Harcourt to reduce the 6,000 plus trucks that transport products from Lagos to other parts of the country.

¶10. (U) Ordu commented the NNPC could invest in or buy refineries

abroad in the short term. The NNPC could also enter joint ventures or begin crude swaps with foreign refineries, depending on the length of time needed for local refineries to be repaired or built.

¶11. (U) Comment. With new appointees at the helm of Nigeria's oil industry, ideas like those proposed by Ordu may highlight innovative ways forward. End Comment.

McConnell